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SUBJECT: Antigua's Economy: Down for the Count?

CLASSIFIED BY: D. B Hardt, Charge d'Affaires a.i., DOS; REASON:
1.4(B), (D)

Summary

[11](#). (C) Antigua's public debt has increased at a catastrophic rate over the last two years, leading to a debt to GDP ratio of almost 120 percent. The government's own estimates show that the ratio will likely hit 200 percent by the end of the its current term in office in 2014, if drastic measures are not taken. Current GOAB plans to address the dire situation include increasing government revenue by 20 percent, reducing the government's bloated public sector employment bill, and adding on a significant amount of additional foreign debt. Possible insolvency and a breakdown of government services looms if steps are not taken to address the problem. End Summary

Public Debt Killing the Future

[12](#). (C) The United Progressive Party (UPP) government has increased total public debt from \$1 billion to \$1.34 billion since taking office in 2004. After initially lowering the national debt from 112 percent of GDP in 2005 to a low of 92.9 percent of GDP in 2007, the debt ratio has skyrocketed to 115 percent of GDP in 2009, according to loan documents filed by the GOAB with the Caribbean Development Bank (CDB). [Note: According to GOAB estimates, GDP for 2009 will be \$1.16 billion with government revenues of about \$250 million.] Estimates for 2010 predict an increase to \$1.54 or close to 140 percent of GDP. The current budget shortfall for 2009 is an estimated \$168 million and is expected to grow in 2010. The GOAB is estimating a 2010 deficit of \$170 million which if left unchecked could lead to a debt to GDP ratio of almost 200 percent by 2014. Budgeted debt service payments account for 32 percent of all government revenues and about 7 percent of total GDP in 2010 and will continue to grow throughout the decade. This level of debt will make it difficult for the government to meet its social obligations such as universal education and basic social services.

Public Employment Rationalization

13. (C) The more systemic problem is that public sector employment accounts for 45 percent of the government's budget and close to 60 percent of public revenues. Decades of giving away public sector jobs to voters and political backers has created one of the highest ratios of public sector employment to national labor pool employment in the world. Public sector employment makes up roughly 50 percent of total national employment, FinMin Lovell told us in October. Given the large number of immigrants in the local labor market, by some estimates accounting for more than 30 percent of the labor force, and the preponderance of native Antiguan in public sector jobs, Lovell speculated that the vast majority of Antiguan are employed by the GOAB.

14. (C) Lovell confided that without some form of public sector employment rationalization scheme, the government will have no chance at installing fiscal responsibility. To compound matters, the majority of government workers are in administrative or clerical positions where they do little more than show up to collect their pay checks, he lamented. "We are in desperate need of retraining and redistribution," he added, noting that government employees who are not willing to work to increase their productivity and value to society need to be let go.

Loans, International Loans and Foreign Largess

15. (C) Due to the global recession and fallout from the Stanford fraud case, government revenues came in 22 percent under 2008 predictions. Stanford was the second largest employer on the island, which, coupled with job losses in the tourism sector, has helped fuel unemployment rates near 18 percent. The government has also taken out loans tied to specific sources of government revenue, which has the Caribbean development Bank and the Eastern Caribbean Central Bank concerned. One such loan for \$14 million to the Antigua Investment Bank is secured by taxes on petroleum and the lease monies generated by the U.S. airbase in Antigua. Another loan by the Stanford Financial Group to the GOAB made in 2004 is secured by the embarkation tax and the property tax.

16. (C) The GOAB has sought loans and financial support from all quarters in hopes of filling the gap. A recent loan from Venezuela for \$50 million was used primarily to make government salaries current as they had been running six weeks behind, and the government is already reportedly one month behind in salaries again. The government has also engaged the CDB to seek a \$30 million dollar loan and hopes to obtain the maximum \$150 million facility from the IMF -- neither of which would be available before the middle of 2010. Local real estate developer Bruce Baxter told us that the government has approached China about purchasing the 1500 acre Guiana Island off the north coast of Antigua. The island was purchased by Allen Stanford in 2008 for a reported \$22 million, but was nationalized when the GOAB acted to expropriate all of Stanford's Antigua-based assets following his arraignment on fraud charges in the U.S. The reported asking price is a general purpose loan in the 100's of millions of dollars. But, with Stanford victims clamoring for Stanford's assets to be turned over for compensation, this property could become part of an expropriation dispute, and such murky legal title could make selling it off problematic.

Looking to Generate More Revenue

17. (C) The government is seeking to increase revenue generation wherever possible to meet the stated goal of achieving revenues of 25 percent of GDP, up from the current rate of 20 percent of GDP. Measures include clamping down on duty-free concessions, an additional 10 percent customs service tax, a new excise tax on alcohol, tobacco and luxury goods and an increase in the embarkation tax. It is hoped that these measures will yield an additional \$50-60 million dollars. Unfortunately, even if they are able to meet their revenue goals, they will still be looking at annual deficits of \$100 million or nearly 10 percent of GDP.

Comment

18. (C) Antigua and Barbuda is facing a severe fiscal economic crisis, largely of its own making. The UPP Government, which initially appeared more fiscally responsible than its ALP antecedents, finds itself in a situation bordering on financial meltdown. Many question the capacity of the current government and particularly the financial acumen of the Finance Minister and the Prime Minister to chart a course out of this slow motion shipwreck. Without access to short-term financing soon and a comprehensive strategy toward fiscal stability, there is a real danger that the government will not be able to meet its financial responsibilities. This would lead to a severely diminished government capacity to provide essential services. As Antigua is a transportation hub in the Eastern Caribbean and an important link in the narcotics smuggling chain in the region, it is in the U.S. interest to work with the government to support their efforts to meet basic governmental obligations.

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